

Message Text

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ACTION EUR-12

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TAGS: EFIN, EEC
SUBJECT: EC MONETARY ARRANGEMENTS: AMOUNTS OF PROPOSED
ADDITIONAL B/P CREDIT AVAILABILITIES

REF: (A) BRUSSELS 13677, (B) BREMEN 412

1. THIS MESSAGE SUPPLEMENTS REF A IN PROVIDING CALCULATION OF THE ADDITIONAL BALANCE OF PAYMENT CREDIT WHICH COULD BE PROVIDED THROUGH THE PROPOSED EXPANDED EUROPEAN MONETARY COOPERATION FUND (EMCF) UNDER THE FRENCH-GERMAN PROPOSAL MADE AT BREMEN (REF B).

2. UNDER THIS PROPOSAL, A SUGGESTED TWENTY PERCENT OF EACH PARTICIPATING COUNTRY'S DOLLAR AND GOLD RESERVES WOULD BE PUT ON DEPOSIT AT THE ECMF IN EXCHANGE FOR EUROPEAN CURRENCY UNITS (ECU), EQUAL TO THE BASKET EUROPEAN UNIT OF ACCOUNT. ECU THUS OBTAINED COULD BE
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USED IN SETTLEMENT OF INDEBTEDNESS ARISING OUT OF EXCHANGE MARKET INTERVENTION IN THE EMS. EACH COUNTRY WOULD ALSO DEPOSIT AN SIMILAR AMOUNT IN ITS OWN NATIONAL CURRENCY IN EXCHANGE FOR ECU WHICH IT COULD ALSO USE, BUT SUBJECT TO POLICY CONDITIONS.

3. THE FIRST TWENTY PERCENT WOULD REPRESENT FOR DEPOSITING

COUNTRIES A TRANSFORMATION OF GOLD AND DOLLAR RESERVES INTO ECU - A SUBSTITUTION, NOT AN ADDITION TO THEIR RESERVES OR CREDIT AVAILABILITY. THE LATTER TWENTY PERCENT WOULD, HOWEVER, REPRESENT ADDITIONAL POTENTIAL FINANCING RESOURCES FOR MEMBER STATES IN NEED. ACCORDING TO DATA PROVIDED BY THE GERMANS AS A BASIS OR DISCUSSIONS AT BREMEN (SEE TABLE) TOTAL GOLD AND CURRENCY RESERVES OF EC MEMBER STATES AT THE END OF APRIL WITH GOLD VALUED AT THE MARKET PRICE, EQUALED \$146.5 BILLION. THUS (ABSTRACTING FROM THE SMALL AMOUNT OF NON-DOLLAR RESERVE CURRENCY HOLDINGS), ABOUT \$29 BILLION WORTH OF GOLD AND DOLLARS WOULD BE DEPOSITED, AND AN ADDITIONAL \$29 BILLION CREDIT LINE WOULD BE ESTABLISHED THROUGH THE DEPOSIT OF NATIONAL CURRENCIES.

4. IN PRACTICE, OF COURSE, NOTHING LIKE \$29 BILLION OF CREDIT WOULD EVER BE USED, SINCE ALL PARTICIPATING COUNTRIES WOULD NOT SIMULTANEOUSLY BE IN NEED OF FINANCING. IT IS MORE RELEVANT TO CONSIDER THE INCREASED CREDIT AVAILABILITIES (EQUAL TO TWENTY PERCENT OF A COUNTRY'S GOLD AND DOLLAR RESERVES) FOR THE MOST LIKELY DEFICIT COUNTRIES, SUCH AS THE UK, ITALY, FRANCE, IRELAND, AND DENMARK, WHICH CAN BE SEEN IN THE RIGHT-HAND COLUMN IN THE TABLE BELOW. THESE COUNTRIES' MAXIMUM AVAILABILITIES SUM TO UNDER HALF THE TOTAL.

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5. SUCH AMOUNTS ARE LESS FORMIDABLE, THOUGH STILL QUITE SUBSTANTIAL IN COMPARISON, SAY, WITH IMF CREDIT LINES. WHETHER THEY WOULD BE SUFFICIENT (TOGETHER WITH OTHER RESOURCES) TO ADEQUATELY UNDERPIN AN EXCHANGE-RATE SYSTEM AS TIGHT AS PROPOSED IN BREMEN REMAINS TO BE SEEN.

GOLD AND CURRENCY RESERVES OF EC MEMBER STATES,
END APRIL, 1978 (\$ BILLIONS):

COUNTRY	GOLD	CURRENCY	SUM	X 20 PERCENT
BEL-LUX	7.4	2.8	10.2	2.0
DENMARK	0.3	1.9	2.3	0.5
GERMANY	20.7	32.7	53.4	10.7
FRANCE	17.8	5.2	23.1	4.6
UK	3.9	16.1	20.0	4.0
IRELAND	0.1	2.0	2.1	0.4
ITALY	14.5	7.4	21.9	4.4
NETHERLANDS	9.6	3.9	13.5	2.7
TOTAL EC	74.4	72.1	146.5	29.3

SOURCE: GERMAN DOCUMENT PROVIDED AT THE BREMEN SUMMIT.
ORIGINAL FIGURES IN EUA, CONVERTED TO DOLLARS AND ROUNDED
OFF BY MISSION. GOLD VALUED AT MARKET RATE OF \$175.33/
OUNCE. ITEMS MAYNOT EXACTLY ADD TO TOTAL DUE TO ROUNDING.
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